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# SMALL BUSINESS WEEK 2002

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## **Recognizing America's Small Businesses and how Democrats are working to help them**

An information resource prepared by the



House Small Business  
Committee Democrats

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# Small Business: the Engine of the Economy

It is easy to overlook the most important sector of the U.S. economy – small businesses. Not because they are few and far between – in fact, today there are approximately 25 million small businesses in the United States. They account for approximately 75% of all new jobs added to the economy and represent 99.7% of all employers. Small businesses provide almost one-third of workers with their first jobs and initial on-the-job training in basic skills. But many times, the important role Main Street plays in keeping the United States competitive is overshadowed by corporate America.

Small businesses form the backbone of our economy. They account for half of our gross domestic product and contribute more than 55% of innovations in such sectors as manufacturing, technology and services. During the long boom of the 1990s, small businesses forged the way for high tech expansion and growth – they now account for almost 40 % of jobs in the high technology sector.

Small businesses pull the U.S. economy out of recession. Contrary to popular belief, start-up businesses flourish when the economy falters. Such large corporations as Microsoft, Hewlett-Packard, and Walt Disney all started during recessions. The owners nurtured their small businesses to become some of the largest and most powerful business entities in the country. In fact, it is predicted that the current recession will produce more start-ups than past ones.

One reason for this is that women and minorities are opening small businesses in record numbers. Women-owned businesses nearly doubled during the past decade – there are currently an estimated 6.2 million women-owned businesses, accounting for 28% of all privately held firms. These firms generate \$1.15 trillion in sales and employ 9.2 million workers.

The number of minority-owned enterprises nearly quadrupled in the last decade, and they generally outstrip the national average in business creation and receipts. Immigrants who arrive in this country are well-positioned for the entrepreneurial life – they speak the language of their neighborhoods and provide goods and services that meet the needs of the local community. Minorities now own 15% of American businesses and 99% of these firms are small businesses.

The Small Business Administration (SBA) has an array of programs that play a critical role in cultivating our nation's small businesses. With a portfolio of business loans, loan guarantees, disaster loans and venture capital worth more than \$58 billion, SBA is the nation's single largest financial backer of small businesses. SBA programs that help small businesses with the funding and know-how are becoming more established in local communities through Small Business Development Centers and Women's Business Centers found in almost every state.

Small businesses built this country from the ground up. Today, they still make up half our economy. They anchor our neighborhoods, employ and train our workers, and take care of their families. Given the broad contributions small businesses make to our communities, Democrats are committed to ensuring that they have the resources and protections necessary to grow and thrive.

# The Bush Administration: The Best Friend of Big Business

The year 2001 began with great promise for small business. Both Congress and the new Administration voiced support for small business and recognized its importance to the nation's economy. The Administration and the 107<sup>th</sup> Congress promised to be the best for small business ever.

Bush came to the White House last year with assurances that he would be the best friend small companies ever had. He spoke frequently about their needs during the campaign and about the vital contributions American entrepreneurs make to this country's prosperity. Unfortunately, the recession separated rhetoric from reality. The President turns out to be the best friend big business ever had.

From the Bush prescription drug discount proposal that would force small, community pharmacists out of business, to the Bush tax cuts that target the wealthy minority instead of assisting the majority of working families, the actions taken by the Bush Administration have clearly shown that big business interests come before the needs of small enterprise.

In January 2002, the Democratic Members of the House Small Business Committee issued a report, *"America's Small Business Agenda: Closed for Business."* This report examined the legislative status of 11 issues critical to small business during the first session of the 107<sup>th</sup> Congress. What the report outlined is that on every issue, legislative remedies exist to assist small businesses but have been stalled by a Republican-controlled House and the Bush Administration.

Then, on March 19, President Bush unveiled his small business agenda in a speech he made before a Labor Department forum on women's business issues in Washington. The President highlighted five of the 11 issues identified in the Democratic report as vital to American entrepreneurship.

President Bush spoke about lowering taxes, reducing regulatory burdens, allowing association health care plans and opening up federal contracting by eliminating large federal contracts that exclude small business. In addition, he pledged to issue an Executive Order expanding the powers of the Small Business Administration's Office of Advocacy, an independent voice for American enterprise.

But the President has done nothing more to bridge the gap between his rhetoric and reality. His tax cuts still favor wealthy individuals over small businesses. His Medicare prescription drug card plan helps major corporations and hurts community pharmacies. He has done nothing to reduce regulations and paperwork that disproportionately burden small businesses. In short, the President merely mouths the interests of the small businesses that create more new jobs every year than the corporate cronies he continues to support.

Democrats, working together, can shed light on small business issues and ensure that the President and House Republicans take notice of the important role small businesses play in our economy.

## **Administration Cripples Small Business Loan Program**

For small businesses across the country, access to capital is access to opportunity. But many times, finding and securing capital that is both affordable and accessible is an elusive goal for entrepreneurs. Proof of this is in the fact that the number one source of small business financing is credit cards.

While credit cards are readily available, they often come with high interest rates that can quickly burden a small business with insurmountable debt. That is where the Small Business Administration's (SBA) lending programs come into play. Through its partnership with local lending institutions, SBA is able to provide this nation's small businesses with the capital they need through accessible and affordable loan programs – the SBA made \$20 billion in loans last year alone. In fact, 40% of all long-term small business loans are provided through SBA loan programs.

But even with this assistance, small businesses – especially women and minority-owned businesses – are finding it difficult to meet their capital needs. A recent report released by the National Association of Manufacturers showed that 34% of the small businesses surveyed found that it was harder to get credit now than it was last year.

This credit tightening problem will only be compounded by the Bush budget, passed by the House, that negatively impacted SBA's most popular loan program – the 7(a) General Loan Program. This move will result in \$5 billion less in capital that is available to small businesses.

The funding shortfall to the 7(a) loan program came soon after the release of a GAO report revealing that, over the past 10 years, both lenders and small businesses participating in this program were overcharged by \$1 billion. This is no more than an unfair tax that the Bush Administration has yet to end. By failing to provide small businesses with access to capital, the Bush Administration is draining small businesses of the resources they need to grow. Without small business expansion, slower job creation and a decline in economic opportunities will be the final result.

## **Why the Bush Rx Drug Proposal is Bad for Small Business**

Almost a year ago, President Bush unveiled a prescription drug card plan for 10 million Medicare recipients. The Bush Administration developed the discount drug card proposal with a select group of big business pharmacy benefits managers in a closed-door session.

The discounts under such card programs come entirely from small, community pharmacy price reductions, not from big drug manufacturer contributions. Last year was a record one for the big drug companies – retail spending for prescription drugs grew by approximately \$24 billion and drug price increases accounted for almost 40% of overall drug spending growth in 2001.

The President's plan provides little savings to seniors (10-15%, which fails to keep pace with inflation), eliminates contact with local, community pharmacists, and widens the profit margins of big drug companies.

Community pharmacies provide valuable services to their customers, and discount card approaches jeopardize the local pharmacy infrastructure. The Administration's drug card program is structured to steer beneficiaries to mail order for medications that could cost community pharmacies between \$30 million and \$60 million a year in lost profits. The National Association of Chain Drug Stores (NACDS) and the National Association of Community Pharmacists (NCPA) estimate that the proposed drug card plan would cause as many as 20 percent of drugstores to go out of business.

Community pharmacies operate on extremely low profit margins – about two percent of sales. Any reduction in profit margins for pharmacies will lead to either: 1) non-participation in the discount card program; 2) pharmacies going out of business, or 3) reduction in services provided by the pharmacy. All three scenarios lead to declines in service and restricted access to medications and counseling for seniors. If pharmacies have to reduce hours of operation and/or service levels to remain profitable, this could have a substantial impact, especially in rural areas, where access to local pharmacies is critical.

Mail order pharmacies receive rebates from big drug manufacturers for brand-name drugs, and, therefore, they have an economic incentive to use brand-name drugs over lower-priced generics. Seniors could pay more for their prescription through mail order because they could unknowingly continue to purchase a brand-name drug when a lower-priced generic drug is available through their local pharmacy.

The five pharmacy benefit companies that collaborated with the Department of Health and Human Services (HHS) on this program have the largest mail order operations in the country and stand to benefit most from this program by increasing their market share. Several states, including Arkansas, Georgia, Iowa, Kansas, South Carolina, South Dakota, California, and Washington have enacted consumer protection laws or issued advisory statements. In Iowa, the Attorney General's office has issued a consumer advisory warning that some discount card programs offer illusory benefits.

The Administration's prescription drug card proposal assists big drug companies and pharmacy benefit companies in generating substantial profits while not only failing to provide savings to seniors but also putting small, local pharmacists out of business.

## **Bush Tax Cuts – A Win for Corporate Interests and the Wealthy**

Tax relief for American families was the central message for President Bush during the 2000 Presidential campaign. Unfortunately, President Bush's tax plan was sent to the Hill without small businesses in mind.

President Bush argued that reducing the tax rates will benefit small business because so many owners pay taxes as individuals. But big business and the wealthiest 50% of Americans account for 96% of all federal tax revenues. They are the ones, not small business, that will benefit most from Bush's tax plan. In addition, reducing the individual tax rate benefits the individual, not the business.

Differentiating between the income of a small business and the income of an owner is important in starting up and continuing the small business. Providing an individual tax break would require

the small business owner to take out operating money from the business in order to benefit. Once taken out, the money would not be put back into the business to keep it running.

But the individual rate misses small business in another way. There are approximately 25 million small businesses like this in the U.S. and only about half (13 million) had positive income in 2001. Therefore, half of small businesses would not benefit from the President's tax cut at all. In addition, the majority of these small businesses qualify for the Earned Income Tax Credit, which means they will not benefit from any rate reduction.

The small business owner would rather have tax incentives that directly benefit the operation of their businesses instead of having to put their individual income, which has already been taxed twice, back into the business. Small businesses need tax cuts designed to encourage business growth by, for example, increasing business expensing under Section 179 of the tax code.

Congress must support policies that increase capital in the hands of those that spend it – small business – and not those who save and invest for themselves – the wealthy. We must act responsibly to restore confidence and pass tax provisions that are targeted to small businesses, this nation's most powerful economic engine.

## **No Aid for Small Business**

Since early last year, small businesses have been feeling the effects of the recession. This was made worse for many sectors of the American economy after the terrorist attacks of September 11. One-third of small businesses reported lower sales, which forced them to shed jobs and put off investment plans.

Many small business industries were especially hard hit. The small aviation industry lost \$300-\$400 million, and motorcoach charters announced cancellation rates of up to 80%. Airport concessionaires saw business drop 40-60%. Restaurants shed 60,000 jobs nationwide in September alone, and reported that September and October were their worst months on record. Travel agencies lost a staggering \$364 million in sales and \$73 million in commissions the first week after September 11.

While the Republican-controlled House and the Bush Administration were quick to take measures for an airline industry bailout, nothing has been done to assist those sectors of the small business community impacted by the economic recession and the events of September 11.

## **Small Businesses Shut out of the Federal Marketplace**

The federal marketplace is one of the largest in the world, worth nearly \$220 billion in FY 2001. But for the second year in a row, federal agencies failed to meet their mandated small business contracting goals, costing these firms more than \$9 billion in contracts. The procurement policies of the federal government affect all small businesses, but women- and minority-owned businesses fare the worst. The government-wide goal for women-owned businesses – which have grown to an estimated 6.2 million, generating \$1.15 trillion in sales – is a low 5%, yet the

federal government failed to meet this goal by half.

In an effort to give women-owned businesses equity in federal contracting, legislation was passed and made law, but the Bush Administration continues to stall its implementation. The Women's Procurement Program became effective with the enactment in December 2000 of P.L. 106-554, the Small Business Reauthorization Act. This program creates a restricted competition for women-owned businesses in those industries that have failed to provide fair opportunities for women business owners.

One reason the federal government is unable to meet its small business goals is due to the growing trend toward contract consolidations. In fact, over the past four years the number of federal contracts awarded to small businesses has declined by nearly 23%, while the dollar value of contracts increased by over \$23 billion. The creation of contracts too large for small businesses is a persistent and critical issue. Currently, there are two pieces of bipartisan legislation introduced by Democratic members of the House Small Business Committee that would help curb this trend and close the existing loopholes in the federal procurement system that exclude small businesses.

*The Small Business Contract Equity Act of 2001* (H.R. 1324) empowers the Small Business Administration (SBA) to provide a more equitable system for settling disputed cases involving bundled contracts. It shifts the decision-making ability from federal agencies to the SBA. *The Small Business Contract Equity Act* also holds agencies that fail to meet their statutory small business goals accountable by suspending their ability to bundle contracts for **one full fiscal year**. Introduced in 2000, this bill is awaiting Committee action.

Recently reported out of the House Small Business Committee but still awaiting action by the full House is the *Small Business Opportunity Enhancement Act of 2001* (H.R. 2867). This legislation will enhance the SBA's ability to dismantle large contracts so that small businesses are better able to participate as prime contractors. It will also extend the deadline from 30 days to 60 days to help more small businesses to bid on bundled contracts. The current 30-day deadline is too short for small businesses to assemble partners for a competitive bid on large contracts.

It is clear the federal procurement system needs to be overhauled – the three measures here would help to accomplish this. But without action from House Republicans and support from the President on the Women's Procurement Program, small businesses will continue to be shut out from the multi-billion-dollar federal marketplace.

## Small Business Accomplishments

### ➤ *Small Business Technology Transfer Program Reauthorization*

Although small businesses are some of the most innovative in the high tech community, they often lack the large research and development departments for launching an idea into the commercial marketplace. The Small Business Technology Transfer Program (STTR) was designed to address this problem by assisting small businesses to access the capital they need for project formation and completion. This is accomplished by utilizing a small portion of an agency's research budget to fund small business projects in conjunction with local educational institutions.

This recently reauthorized program also places an increased emphasis on developing technology in low-income and rural areas.

➤ *Mentor-Protégé Program Reauthorization*

One of the best ways for a small business to break into the federal marketplace is to work with a company that already has experience in it. This is the goal of the Mentor-Protégé Program, which was recently extended for 3 additional years and provides incentives to major Department of Defense contractors to act as mentors for women- and minority-owned businesses. This is a positive relationship for both parties – the mentor gets a new contracting partner and the small business protégé gains access to the federal arena.

➤ *Fairness for Small Business in Federal Contracting*

In the federal marketplace, small businesses still encounter barriers to government contracts. One of the most challenging areas is the unfair advantage given to Federal Prison Industries (FPI). While represented as a means to provide skills and rehabilitation, many times work performed by FPI is subcontracted out to large corporations. One of the worst offenders is the Department of Defense. Under legislation that was approved at the end of last year, small businesses that do businesses with Pentagon will finally be able to compete fairly through a more open and fair contracting process.

➤ *Making Loans More Affordable for Small Business*

Entrepreneurs often struggle to find the capital they need to start or grow a business. To assist in this effort, legislation was enacted to reduce the cost of the SBA's general loan program for both small businesses and lenders. It provided an across-the-board cut to the loan fees that small businesses must pay, while reducing the average cost of each loan by \$2,000. This will allow small business owners to pay less on interest and invest more in their businesses.

➤ *Accelerated Depreciation Tax Benefit to Aid Small Business*

Contained in the economic stimulus package was a three-year expensing provision providing a 30% depreciation bonus, also known as accelerated depreciation. Accelerated depreciation provides the business with an interest-free loan source of investment funds from the government.

➤ *Net-Operating-Loss Carry-Back Tax Provision for Small Business*

Another provision of the economic stimulus package was the Net-Operating-Loss Carry-Back Provision. NOL carry-back allows small businesses to deduct losses in the current year from taxable income (if any) earned in last 5 years. This essentially will give small businesses a tax refund that they can use to invest in job creation.

➤ *Cash Accounting for Small Firms*

Under the new rules published by the IRS, most service providers with annual gross receipts of \$10 million or less will be allowed to use the cash method of accounting rather than the accrual method, which can be very costly, complicated and time-consuming. The IRS is also exempting small businesses with less than \$250,000 in gross receipts and less than \$250,000 in assets from completing several forms associated with corporate income tax returns. These paperwork changes alone could save small businesses an estimated 61 million staff hours.



➤ *Passage of Brownfields Legislation that Protects Small Business*

For many years, small business owners who have disposed of small amounts of materials or municipal waste have feared they may be subject to EPA fines and lawsuits intended to make corporate polluters pay for environmental clean up. To protect small business from this, the Small Business Relief and Brownfields Revitalization Act was signed into law. This legislation will ensure that large corporations that pollute areas are held accountable without subjecting small businesses to unfair fines and lawsuits.

## District Small Business Events

The following are just a few ideas to help Members connect with small businesses in their districts:

➤ *Small Business Walk*

Working with your local Chamber of Commerce, choose a commercial strip and visit the small businesses there. Consult with your nearest Small Business Development Center (SBDC) and ask them to join in the walk to provide any answers to technical assistance or other business questions.

➤ *Women Business Forum*

Inviting either your local SBA Women's Business Center or other women's business groups in your area, bring women-owned businesses together to discuss the support they might need to grow and their role in enhancing the community.

➤ *Bush Administration's Prescription Drug Card Program*

Either at a local senior center or pharmacy, bring together community pharmacists with senior citizens to talk about Bush's prescription drug card program. Use this opportunity to let community pharmacists know how the Bush proposal could harm their business and how little savings would be realized by senior citizens.

➤ *Economic Development Workshop*

Working with community leaders and federal agencies such as the Small Business Administration, bring a panel of experts in to discuss the different types of grant programs and assistance for economic development efforts within your district.

➤ *Minority Enterprise Awareness & Exchange Program*

Highlighting the importance of minority business development and growth in your district, bring together minority business groups with those minority businesses that have contributed to the local economy. Through this session, work to uncover barriers to minority business start-ups and growth. Working with local groups, design an action agenda to help ease these burdens and overcome obstacles to the development of minority enterprise.

➤ *Information Session for Start-ups*

Partnering with your local SBDC or other small business assistance groups in your area, bring together those who have business development know-how with individuals interested in starting or growing a small business.

➤ *Maximizing Small Business Procurement Opportunities*

Inviting SBA Procurement Center Representatives and federal agency OSDBUs (Office of Small and Disadvantaged Business Utilization) to speak about how small firms can successfully find – and win – federal contracts.

➤ *Access to Capital Event for Business Expansion/New Businesses*

Bringing local SBA lenders together with area banks, ask this panel of experts to discuss how small business owners can access capital for expansion or how entrepreneurs can find the funding they need to open a business of their own.



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